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FILED

JUL 15 2011

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF CALIFORNIAUNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF CALIFORNIA  
SACRAMENTO DIVISION

In re: ) Case No. 09-25849-B-13  
)  
JUN VILLANUEVA and )  
RUCCELL VILLANUEVA, )  
) Adversary No. 10-2045-B  
Debtor(s). )  
) DCN BH-4  
JUN VILLANUEVA, et al., )  
)  
Plaintiff(s), )  
) Date: November 18, 2010  
vs. ) Time: 11:30 a.m.  
) Place: U.S. Courthouse  
MORTGAGE ELECTRONIC SYSTEM, ) Courtroom 32  
INC., et al., ) 501 I Street  
) Sacramento, CA 95814  
Defendant(s). )  
)  
)

## MEMORANDUM DECISION

This matter previously came on for final hearing on November 18, 2011, at 11:30 a.m. Appearances are noted on the record. At the conclusion of the hearing the court took the matter under submission. The following constitutes the court's findings of fact and conclusions of law, pursuant to Federal Rule of Bankruptcy Procedure 7052.

## DECISION

The motion is granted in part. Moving defendant Fidelity National Information Services, Inc. ("Fidelity") is dismissed from all causes of action in this adversary proceeding without leave given to the plaintiff debtors (the "Debtors") to amend. If the Debtors wish to amend the complaint to include claims for

1 relief against Fidelity, the Debtors shall file a motion  
2 requesting permission to amend their complaint to state a claim  
3 against Fidelity. The Debtors shall file and serve said motion  
4 on or before August 5, 2011, and shall set said motion on the  
5 first available calendar which provides proper notice to parties  
6 in interest. If filed, the motion to amend shall set forth the  
7 specific factual allegations which the plaintiffs would include  
8 in the second amended complaint as to those parties which the  
9 Debtors seek to include as named defendants. If filed, the  
10 motion to amend will also toll any existing deadline for the  
11 filing of an amended complaint in effect at the time that the  
12 motion is filed, pending the resolution of the hearing on the  
13 motion to amend.

#### 14 15 **FACTUAL BACKGROUND**

16 By this motion Fidelity moves for dismissal of this adversary  
17 proceeding under Fed. R. Civ. P. 12(b)(6), made applicable to  
18 this adversary proceeding by Fed. R. Bankr. P. 7012.

19 The first amended complaint filed in this adversary  
20 proceeding on June 30, 2010 (Dkt. 30) (the "FAC") alleges five  
21 causes of action for 1.) Declaratory Relief, 2.) Violation of 11  
22 U.S.C. § 362(a), 3.) Violation of 11 U.S.C. § 362(k)(1), 4.)  
23 Violation of the Real Estate Settlement Procedures Act ("RESPA"),  
24 and 5.) Civil Conspiracy.

25 Fidelity is one of several named defendants. As to  
26 Fidelity, the FAC alleges that Fidelity is a Delaware

1 corporation, and that "Fidelity representatives provide  
2 defendants with default software and/or usage of NewTrak, and is  
3 in privity with the actual holder of this bankruptcy claim."  
4 (FAC, ¶ 20). The FAC contains no other specific allegations  
5 regarding Fidelity or any conduct by Fidelity.

6 In their written opposition to the motion the Debtors have  
7 made additional factual allegations regarding Fidelity. The  
8 Debtors allege that Fidelity, which is now allegedly known as  
9 Lender Processing Services ("LPS"), develops a software program  
10 called NewTrak. NewTrak provides an electronic communications  
11 platform that is used by institutional lenders to refer  
12 bankruptcy matters to attorneys that have signed agreements with  
13 LPS and are registered in an LPS database. NewTrak allegedly  
14 provides information to the attorney to which a bankruptcy matter  
15 is referred that is used, among other things, for the purpose of  
16 drafting and filing proofs of claim and motions to be filed in a  
17 bankruptcy case, such as motions for relief from the automatic  
18 stay. According to the Debtors, LPS enters into agreements with  
19 lenders to provide the communications and referral services  
20 described above. The Debtors assert in their written opposition  
21 that both IndyMac Federal Bank, FSB ("IndyMac Federal") and  
22 OneWest Bank FSB ("OneWest Bank"), lenders who have both actively  
23 participated in the Debtors' parent bankruptcy case, have such  
24 agreement with LPS, and that named defendant McCarthy & Holthus,  
25 LLP is a registered law firm in NewTrak's database. The Debtors  
26 assert that the NewTrak system incorrectly calculated pre-

1 petition escrow advances versus post-petition escrow advances and  
2 incorrectly calculated the amount of the Debtors' monthly  
3 mortgage payment in this case, which resulted in the various  
4 violations alleged in the FAC, including violations of the Real  
5 Estate Settlement Procedures Act ("RESPA") and the automatic stay  
6 of 11 U.S.C. § 362(a). The Debtors base their allegations  
7 relating to the foregoing on their reading of the decision of the  
8 Bankruptcy Court for the Eastern District of Pennsylvania in In  
9 re Taylor, 407 B.R. 618 (Bankr., E.D. Pa. 2009).

#### 11 ANALYSIS

##### 12 The Law Applicable to A Motion For Judgment on the Pleadings

14 The following sets forth the legal standard for dismissal of  
15 a complaint where the complaint fails to state a claim on which  
16 relief may be granted:

18 The purpose of a motion to dismiss under Rule 12(b)(6) of  
19 the Federal Rules of Civil Procedure, made applicable here  
20 under Fed. R. Bankr. P. 7012, is to test the legal  
21 sufficiency of a plaintiff's claims for relief. In  
22 determining whether a plaintiff has advanced potentially  
23 viable claims, the complaint is to be construed in a light  
24 most favorable to the plaintiff and its allegations taken as  
25 true. Scheuer v. Rhodes, 416 U.S. 232, 94 S.Ct. 1683, 40  
26 L.Ed.2d 90 (1974); Church of Scientology of Cal. v. Flynn,

1 744 F.2d 694, 696 (9th Cir.1984). . .

2  
3 Quad-Cities Constr., Inc. v. Advanta Bus. Servs. Corp. (In re  
4 Quad-Cities Constr., Inc.), 254 B.R. 459, 465 (Bankr. D. Idaho  
5 2000).

6 In addition, under the Supreme Court's most recent  
7 formulation of Rule 12(b)(6), a plaintiff cannot "plead the bare  
8 elements of his cause of action, affix the label 'general  
9 allegation,' and expect his complaint to survive a motion to  
10 dismiss." Ashcroft v. Iqbal, 129 S.Ct 1937, 1954 (2009).  
11 Instead, a complaint must set forth enough factual matter to  
12 establish plausible grounds for the relief sought. See Bell Atl.  
13 Corp. v. Twombly, 127 S.Ct. 1955, 1964-66 (2007). ("[A]  
14 plaintiff's obligation to provide 'grounds' of his 'entitle[ment]  
15 to relief requires more than labels and conclusions, and a  
16 formulaic recitation of the elements of a cause of action will  
17 not do."). Factual allegations must be enough to raise a right  
18 to relief above the speculative level. Id., citing to 5 C.  
19 Wright & A. Miller, Fed. Practice and Procedure § 1216, at 235-36  
20 (3d ed. 2004) ("[T]he pleading must contain something more. . .  
21 than . . . a statement of facts that merely creates a suspicion  
22 [of] a legally cognizable right of action").

23 In addition, the court notes the following:  
24

25 A dismissal under Rule 12(b)(6) may be based on the  
26 lack of a cognizable legal theory or on the absence of  
27

1 sufficient facts alleged under a cognizable legal  
2 theory. Navarro v. Block, 250 F.3d 729, 732 (9th Cir.  
3 2001); Balistreri v. Pacifica Police Dep't., 901 F.2d  
4 696, 699 (9th Cir. 1988). . . the Court is not required  
5 "to accept as true allegations that are merely  
6 conclusory, unwarranted deductions of fact, or  
7 unreasonable inferences." Sprewell v. Golden State  
8 Warriors, 266 F.3d 979, 988 (9th Cir. 2001). Courts  
9 will not "assume the truth of legal conclusions merely  
10 because they are cast in the form of factual  
11 allegations." Warren v. Fox Family Worldwide, Inc., 328  
12 F.3d 1136, 1139 (9th Cir. 2003); accord W. Mining  
13 Council v. Watt, 643 F.2d 618, 624 (9th Cir. 1981).  
14 Furthermore, courts will not assume that plaintiffs  
15 "can prove facts which [they have] not alleged, or that  
16 the defendants have violated . . . laws in ways that  
17 have not been alleged." Assoc. Gen. Contractors of  
18 Cal., Inc. v. Cal. State Council of Carpenters, 459  
19 U.S. 519, 526; 103 S. Ct. 897, 74 L. Ed. 2d 723 (1983).  
20 . . .  
21

22 Toscano v. Ameriquest Mortg. Co., 2007 U.S. Dist. LEXIS 81884  
23 (E.D. Cal. 2007).

24 If a Fed. R. Civ. P. 12(b)(6) motion to dismiss is granted,  
25 "[the] court should grant leave to amend even if no request to  
26 amend the pleading was made, unless it determines that the  
27

1 pleading could not possibly be cured by the allegation of other  
2 facts." Lopez v. Smith, 203 F.3d 1122, 1127 (9<sup>th</sup> Cir. 2000) (en  
3 banc), quoting Doe v. United States, 58 F.3d 494, 497 (9<sup>th</sup> Cir.  
4 1995). In other words, the court is not required to grant leave  
5 to amend when an amendment would be futile. See Toscano, 2007  
6 U.S. Dist. LEXIS 81884 (citing Gompper v. VISX, Inc., 298 F.3d  
7 893, 898 (9<sup>th</sup> Cir. 2002)). Similarly, a court may also grant  
8 leave to amend in response to a Rule 12(c) motion "if the  
9 pleadings can be cured by further factual enhancement."  
10 Technology Licensing Corp., 2010 WL 4070208 at \*3.

11  
12 All Claims For Relief Dismissed as to Fidelity

13 In this case, all claims for relief set forth in the FAC are  
14 dismissed as to Fidelity, as the FAC alleges no specific conduct  
15 by Fidelity. The FAC merely contains an allegation that Fidelity  
16 provided "defendants with default software and/or usage of  
17 NewTrak, and is in privity with the actual holder of this  
18 bankruptcy claim." FAC, ¶ 20. Merely alleging that Fidelity  
19 provided one or more of the other named defendants with a  
20 software product and that Fidelity is "in privity with the actual  
21 holder of this bankruptcy claim" is insufficient to state a claim  
22 against Fidelity. The Debtors have not cited any authority under  
23 which the provider of a product that performs a legitimate and  
24 legal function in a non-bankruptcy context can be held liable for  
25 claims that include violation of the automatic stay, violation of  
26 RESPA and conspiracy where the purchaser misuses the product or

1 uses it in a bankruptcy context.

2 Furthermore, to the extent that the FAC makes any  
3 allegations of conduct by Fidelity, it is in the numerous  
4 allegations of conduct by "Defendants," "defendants," or  
5 "defendant." This ambiguous identification is insufficient to  
6 state a claim upon which relief may be granted against Fidelity.  
7 Accordingly, Fidelity is dismissed from all claims for relief in  
8 this adversary proceeding.

9 Fidelity is dismissed from this adversary proceeding without  
10 leave to amend granted to the Debtors because the court does not  
11 find that further enhancement of the Debtors' factual allegations  
12 would result in a plausible claim for relief against Fidelity.  
13 The court acknowledges that in response to this motion the  
14 Debtors filed written opposition which contains numerous factual  
15 allegations intended, presumably, to demonstrate what the Debtors  
16 would allege in a second amended complaint if they were permitted  
17 to amend to state one or more claims for relief against Fidelity.  
18 Those allegations are apparently based on the Debtors' reading of  
19 In re Taylor, 407 B.R. 618 (Bankr., E.D. Pa. 2009). However, the  
20 Debtors' reliance on Taylor as evidence that the allegations in  
21 their opposition are plausible is misplaced, because they misread  
22 Taylor.

23 Taylor involved a bankruptcy court's sua sponte  
24 investigation of Lender Processing Services, Inc. ("LPS"), an  
25 entity that, according to the court in Taylor, was spun-off from  
26 Fidelity on July 2, 2008 and utilized the NewTrak software for  
27



1 the purpose of providing "foreclosure, bankruptcy and other  
2 mortgage loan-related default services to the mortgage industry."  
3 The Taylor court sought information from LPS regarding the manner  
4 in which lenders, LPS and attorneys appearing in bankruptcy cases  
5 used the NewTrak system for the purpose of determining whether  
6 sanctions should be imposed on HSBC Mortgage Corporation  
7 ("HSBC"), two law firms which were retained by HSBC through use  
8 of the NewTrak system operated by LPS, and LPS itself. The  
9 Debtors' reliance on Taylor as providing the basis for factual  
10 allegations against Fidelity is misplaced because the entire  
11 inquiry of the court in Taylor was into the practices of LPS,  
12 which, in addition to using NewTrak, provided outsourced mortgage  
13 processing and default management services to mortgage lenders.  
14 The Taylor court did not make any findings with respect to the  
15 activities of Fidelity. The Taylor court pointed out that LPS  
16 was "spun-off" from Fidelity on July 2, 2008 through a tax-free  
17 distribution of all of its shares to Fidelity shareholders, four  
18 months before the Debtors filed their parent bankruptcy case on  
19 November 3, 2008. Taylor, 407 B.R. at 622, n.1. The court  
20 acknowledges that the Taylor decision confusingly adopted  
21 alternative defined terms "LPS" and "Fidelity" for LPS, and also  
22 referred to LPS as "LPS/Fidelity," but this does not change the  
23 fact that the focus of the Taylor court's inquiry was on the  
24 activities of Lender Processing Services, Inc., not Fidelity  
25 National Information Services, Inc., the entity that the Debtors  
26 have named as a defendant in the FAC.

1 As the Debtors factual allegations presented in their  
2 opposition appear to be based entirely on Taylor, the Debtors  
3 have therefore alleged no facts that support a plausible claim  
4 for relief against Fidelity. As stated above, merely alleging  
5 that Fidelity provided software to one or more of the other named  
6 defendants is insufficient. As a result, Fidelity is dismissed  
7 from this adversary proceeding without leave to amend. If the  
8 Debtors make a motion to amend the complaint to name Fidelity as  
9 a defendant, the Debtors' motion must be based on more than a  
10 citation to and recitation of facts from Taylor.

11 The court will issue a separate order consistent with the  
12 foregoing decision.

13  
14  
15 Dated: JUL 14 2011

  
UNITED STATES BANKRUPTCY JUDGE

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF CALIFORNIA

CERTIFICATE OF SERVICE

The undersigned deputy clerk in the office of the United States Bankruptcy Court for the Eastern District of California hereby certifies that a copy of the document to which this certificate is attached was served by mail to the following entities listed at the address(es) shown below.

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DATED:

7/15/11

By:



Deputy Clerk

Cathy Guyer